



Administrative Report

L.1., File # 22-4238

Meeting Date: 6/7/2022

To: MAYOR AND CITY COUNCIL
From: JENNIFER PAUL, FINANCE DIRECTOR

TITLE

CONTINUED PUBLIC HEARING TO CONSIDER THE FISCAL YEAR 2022-23 PROPOSED BUDGET, FIVE-YEAR CAPITAL IMPROVEMENT PROGRAM, AND ASSOCIATED BUDGET RESPONSE REPORTS

- a. Reconvene Public Hearing, take testimony;
- b. Continue Public Hearing to June 14, 2022; and
- c. Receive and file Budget Response Reports.

EXECUTIVE SUMMARY

On May 16, 2022, in accordance with the City Charter, the Mayor and City Council received the Proposed Budget for FY 2022-23 and the Five-Year Capital Improvement Program (CIP). On May 17, 2022, the first Public Hearing on these documents was conducted and continued to June 7, 2022. The May 17th Public Hearing provided an introduction and summary of the Proposed Budget. The June 7th Budget Hearing will be focused on department operations. The June 14th Budget Hearing will be focused on proposed capital projects. The June 21st Hearing will be focused on Council consideration of Budget Adoption.

BACKGROUND

The Proposed Fiscal Year 2022-23 Budget is balanced in accordance with the City Council's adopted Financial Principles. If all recommended Decision Packages are adopted as modifications to the core budget, the General Fund's unallocated balance (total revenues over expenditures) would be \$1.8M. To date, 25 Budget Response Reports (see attached) have been prepared and submitted to the City Council.

The City Manager's budget message describes the budget development process, the City's projected financial outlook for the upcoming fiscal year, proposed General Fund revenues and expenditures, and recommended decision packages. Decision packages are additions or reductions to the base budget that are not contractually obligated or the result of annual personnel allocation updates.

The departmental sections of the budget document discuss core service activities, key projects and assignments, and customer service and referral work measures. Financial Summary (mini-financial) reports spotlight important business units. The Capital Improvement Program (CIP) identifies capital investment required to meet our general plan and other policy goals and to ensure good stewardship of our existing infrastructure. The CIP identifies the projects, their estimated costs, and the financing

methods needed to implement the City's capital investment goals and the maintenance of new or existing infrastructure.

In summary:

- The total annual budget including all funds is \$156.5 million.
- The total core General Fund budget (with transfers and before decision packages) is roughly \$102 million.
- Recommended is a total of \$90.8 million in capital improvements.
- Funding is included for the payroll of 425 full-time employees (before decision packages).
- The General Fund's contingency reserve is \$8.26 million.
- The General Fund's unallocated balance is \$1.8 million (if all proposed decision packages are approved).

Core General Fund tax revenues are projected to increase by almost \$3.4 million. However, total FY 2022-23 General Fund revenue as compared to FY 2021-22, is lower by \$2.6 million due to the expiration of America Rescue Plan Act (ARPA) funding. The General Fund received \$5.8 million in one-time ARPA revenue during FY 2021-22.

Property Tax and related Property Tax in Lieu of VLF revenue are both expected to increase in FY 2022-23 by 5.1%. The revenue received from these sources is based on calendar year 2021 property values which have continued to show strong year over year increases.

HdL, the City's sales tax consultant, projects an 8.5% increase in FY 2022-23 sales tax revenue due to the full reopening of City retail establishments following pandemic-related business closures and continued growth in local returns from the Los Angeles County tax pool.

The City's General Fund revenue source most impacted by COVID-19 has been transient occupancy tax (TOT). This revenue source is recovering, and is predicted to increase by 16.5% year over year, however it's still roughly \$3.2 million below normal annual levels due to the ongoing replenishment of the reserve account for the Marine Avenue hotel properties which requires the redirection of all site generated TOT until the three-million dollar account is full.

It is under these conditions that the Proposed Budget for Fiscal Year 2022-23 was developed. A total of 83 decision packages and 122 capital improvement projects are recommended.

The following provides details of the components of the estimated ending fund balances as shown in the Fiscal Year 2022-23 Proposed Budget.

In the Fiscal Year 2022-23 Proposed Budget, what items adjust beginning fund balances to their estimated ending fund balances?

In the Proposed Budget are the following items which adjust the General Fund beginning fund balance to the estimated ending fund balance.

\$11,078,523	General Fund estimated beginning fund balance
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99,613,990	Fiscal Year 2022-23 proposed core revenues (as detailed in the "Revenues" section of the Proposed Budget document) without Transfers-In
(99,249,950)	Fiscal Year 2022-23 proposed appropriations (as detailed in the Proposed Budget document both in the "Expenditures" section and in the "Department Details" section) without Transfers-Out
1,750,927	Fiscal Year 2022-23 proposed Transfers-In (a transfer from the Harbor Tidelands Fund for the annual property tax in lieu payment and a transfer from the Harbor Uplands Fund for the 2019 lease revenue bond debt service payment)
(2,721,844)	Fiscal Year 2022-23 proposed Transfers-Out (subsidy of the Street Landscaping and Lighting Assessment District, and a transfer to the Community Financing Authority for the 2019 lease revenue bond debt service payment)
\$10,471,645	General Fund estimated ending fund balance (before consideration of the Fiscal Year 2022-2023 decision packages)

The estimated ending fund balances of the other funds are calculated similarly. The adjustments to the beginning fund balances for all funds are detailed in the "Revenues", "Expenditures", and "Department Details" sections of the Proposed Budget document.

What is the resulting impact of funding the recommended Decision Packages to the estimated ending fund balances?

Recommended adjustments to the estimated fund balances are to be considered by the City Council through supplemental requests called Decision Packages. Decision Packages can be related to policy, operational or financial matters. Those impacting the General Fund are categorized below.

\$10,471,645	General Fund estimated ending fund balance (before consideration of the Fiscal Year 2021-22 decision packages)
\$508,050	Decision Packages that Sustain or Improve Revenue to the City
(\$1,238,247)	Decision Packages that Restore Department Positions and Operating Budgets Lost During Prior Year Reductions
(\$1,340,859)	Decision Packages that are Needed to Comply with Mandates or Fund Unavoidable Costs for Current Basic Services
(\$506,562)	Decision Packages that Help Protect the Health, Safety and Quality-of-Life of the Public
(\$414,000)	Decision Packages that Improve Organizational Efficiency or Effectiveness
(\$580,000)	Decision Packages that Support Priority Objectives Suggested by City Commissioners or Members of the Public During the Budget Input Process (not otherwise listed in other categories)
(\$734,847)	Decision Packages that Fill Gaps in Service or Meet New Service Demands

\$6,165,180	General Fund estimated ending fund balance (after consideration of the FY 2022-23 decision packages)
\$4,350,380	Recommended CIP Allocation
\$1,814,800	Total Estimated Year-End Fund Balance after Recommendations

Budget Response Reports, which will be provided throughout the budget adoption process, give detailed information above and beyond what can be described in the budget document and provide the City Council opportunity to explore additional questions and potential budget proposals.

COORDINATION

All City Departments participated in the preparation of the Fiscal Year 2022-23 City Manager's Proposed Budget and Five-Year Capital Improvement Program. The Budget and Finance Commission first reviewed the Proposed Budget at the meeting on May 26, 2022 and will continue the review at the meeting on June 9, 2022. The Harbor Commission will review the Proposed Budget at the meeting on June 13, 2022. Commission feedback will be provided in a follow up Budget Response Report.

FISCAL IMPACT

The adopted version of the Fiscal year 2022-23 Budget will create the financial guideline for all City operations. The Fiscal Year 2022-27 Five-Year Capital Improvement Program is a planning document only. Funding for capital projects in the first year of the plan will be appropriated as part of the Fiscal Year 2022-23 Budget.

APPROVED BY:

Mike Witzansky, City Manager

ATTACHMENTS

- May 17, 2022 Administrative Report
- Fiscal Year 2022-23 Budget Response Reports